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STATE FOR AMB MORNINGSTAR AND EUR/CE JMOORE

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SUBJECT: SCENESETTER FOR SPECIAL ENVOY MORNINGSTAR

REF: A. BUDAPEST 773
[1](#)B. BUDAPEST 338
[1](#)C. BUDAPEST 725

Classified By: Economic Officer Jeffrey M. Jordan, reasons 1.4 (b),(d)

[1](#)1. (SBU) Post warmly welcomes the visit of Special Envoy for Eurasian Energy Richard Morningstar. Your November 16 visit to Budapest sends an important signal to our Hungarian allies that the U.S. continues to be fully engaged in European energy security. The Fourth Energy Forum, where you will be delivering remarks during the opening plenary session, will assemble a diverse array of government and business leaders to discuss energy security and cooperation. The theme of this year's Energy Forum is "New Economic Realities: Possibilities for Greater European Cooperation in the Field of Energy - Towards Sustainable and Secure Energy." The conference will specifically focus on key areas of possible energy cooperation among EU member states against the backdrop of the global economic downturn, reduced energy prices, and political changes throughout the region as new governments come to power and a new European Commission takes shape. The conference hosts, Hungary's Constellation Energy Institute and Poland's Eastern Institute, aim to use the event to foster deepening energy partnerships between old and new EU member states as well as between governments and the private sector. The organizers also seek to explore possible roles for non-EU European states and the U.S. to help the EU deal with its energy challenges. The U.S. Embassy is one of the sponsors of the conference.

HUNGARY HIGHLY DEPENDENT ON IMPORTED ENERGY, BUT TAKING STEPS TO IMPROVE ENERGY SECURITY

[1](#)2. (SBU) Relatively poorly endowed with energy resources, Hungary imports roughly 80 percent of its oil and gas supply from Russia, an amount likely to increase as domestic production declines and demand increases, particularly due to the growing prevalence of gas-fired electricity generation. Hungary's dependence on Russian gas is of particular concern given the key role gas plays in Hungary's primary energy mix - more than 40 percent of its primary energy consumption. Last January's gas cutoff proved the value of Hungary's significant investment in storage capacity as the country was able to make do with a modest degree of rationing and managed to assist neighbors in the Balkans. Following a recent expansion in gas storage capacity by nearly 50 percent, as well as the impending completion of a pipeline link with Romania, Hungary is even better positioned to weather short-term supply disruptions. Construction recently began on a similar pipeline connection with Croatia, which should be operable by the middle of 2011.

13. (SBU) The GoH recognizes the importance of diversifying Hungary's energy sources and has been a strong advocate for the Nabucco pipeline. Hungarian support for Nabucco has been most visible in the tireless diplomatic efforts of Hungary's Nabucco Ambassador Mihaly Bayer, who continues to shuttle among the Nabucco capitals, Brussels, Ankara, and potential suppliers in the Caspian and Central Asia to press for gas exports to Europe through Nabucco. In January 2009, Budapest hosted a successful Nabucco Summit, which helped secure financial commitments from the EU and international financial institutions, while giving a boost to negotiations on the intergovernmental agreement eventually signed in Ankara. Hungary became the first country to ratify the IGA on October 19 (ref A).

14. (SBU) In addition to working to diversify sources of imported energy, the Hungarians are also considering various alternatives at home:

-- ExxonMobil, in partnership with MOL and Canada's Falcon Oil and Gas, is conducting fracture testing at the Mako Trough tight gas sands deposit in southern Hungary, which, according to a 2007 audit, could contain as much as 617 billion cubic meters of recoverable gas. If commercially viable, gas from Mako could enable Hungary to fulfill most of its domestic demand and export some portion after 2020, according to MOL forecasts.

-- Hungary is developing plans to build new nuclear reactors at the 2000-megawatt Paks Nuclear Power Plant, potentially doubling its capacity. Westinghouse, Areva and

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Atomstroyexport are widely expected to be the principal competitors in the tender, most likely to take place in early 2011 (ref B and C).

-- Key potential sources of renewable energy include solar, wind, bioQss, and geothermal. Energy derived from wood and biomass currently far outstrips the use of other renewable sources. Complicated regulatory and licensing procedures as well as difficulties in accessing financing have constrained development of wind and geothermal potential. According to the Ministry of Transport, Telecommunication, and Energy, Hungary needs to invest roughly \$11.5 billion to meet its EU commitment to increase the share of renewable energy from the current 5 percent to 13 percent of the energy mix by 2020.

A PRAGMATIC APPROACH TO RUSSIAN RELATIONS

15. (C) As Prime Minister Bajnai frequently explains, Hungary's relationship with Russia is based on interests, but not necessarily values. Since taking office last April, Prime Minister Bajnai has begun reorienting Hungarian-Russian relations with greater emphasis on transatlantic values, while trying not to damage Hungary's economic interests. Drawing such a distinction between economic relations and strategic orientation, however, can be problematic, especially when the traded commodity is energy.

16. (C) To the concern of many on the political right, Hungary's diplomatic relationship with Russia gained considerable pace with the 2002 arrival of a Socialist government. In recent years, a series of high-level "intergovernmental consultations," criticized by the opposition for their lack of transparency, has yielded agreements on Hungarian participation in South Stream and a Gazprom-MOL joint venture to build gas storage in Hungary. Topics for discussion have also included possible Russian participation in the Paks expansion and financing for Malev, Hungary's financially-troubled, Russian-controlled airline. The GoH is pragmatic in justifying its embrace of the South Stream project, in eQct saying "Hungary needs all the pipelines it can get," whereas the opposition believes "Nabucco should not be 'a priority,' but 'the priority.'" Although the Socialists have tended to view Hungary as a

"bridge" to RusQ, the GoH has drawn the line at Surgutneftegaz' attempt to gain a strategic foothold through its purchase of a 21-percent stake in MOL and pledged to defend the Hungarian champion against foreign takeover. A Fidesz win in next year's elections will probably result in greater rhetorical distance between Budapest and Moscow, but given the extentQ HunQry's dependence on Russian energy, the substance of their relations seems unlikely to change.

RECOGNITION FOR ECONOMIC RESTRUCTURING, ENGAGEMENT WITH
OPPOSITION LEADER

17. (C) November marks the one-year anniversary of the economic crisis hitting Hungary and the country's negotiation of a USD 25 billion international stabilization package with the IMF, EU and World Bank. You may wish to take the opportunity to commend the Bajnai government for successfully managing the crisis and putting Hungary on a more sustainable economic path for the future.

18. (C) With national elections scheduled for next April, the polls predict that the opposition Fidesz party will win by a large margin. Our Fidesz contacts have signaled that clean energy will be one of Fidesz' major priorities. Your visit comes at an opportune time to engage key opposition figures, including Fidesz President Viktor Orban, who is also speaking at the Forum plenary. We hope to arrange a meeting between you and Orban on the margins of the conference.

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